

PUBLIC EMPLOYEES RETIREMENT BOARD
Employee Investment Advisory Council
100 North Park
Helena MT 59601
January 12, 2005

Mike O'Connor, Acting Council Chair with the following in attendance, called the meeting to order:

Council Members:

Tom Schneider, Labor Organization Representative
Tom Bilodeau, Labor Organization Representative
Carroll South, Board of Investments Representative
Kevin McRae, State Employee Representative
Angela McDannel, State Employee Representative
John Northey, State Employee Representative
Glen Leavitt, University System Representative
Ron Alles, Local Government Employee Representative
Terrence Smith, Local Government Employee Representatives
Pam Fleisner, School District Employee Representative
Jim Christnacht, Retired Public Employee Representative

Council Member who was excused: James Helgeson, Local Government Employee Representative

Council Member who was excused to arrive late: Kathy Samson, Public Employee's Retirement Board

Representative. Others in attendance are as follows: MPERA staff: Mike O'Connor, Carolyn Miller, and Melanie Symons. PERB members: Terry Teichrow and Jim Pierce.

HOUSEKEEPING ITEMS

John Northey moved to accept the minutes of the April 6, 2004 EIAC meeting as amended; Tom Schneider made the second. The motions passed with eleven votes in favor.

INVESTMENT POLICY STATEMENT REVIEW

Glen Leavitt moved to recommend to the PERB to amend both the 457 and the 401(a) IPS with option B; which uses more general language such as "use of an appropriate industry accepted database containing a sufficient number of funds in the same asset class and investment category" with addition of as "approved by the PERB". Glen's rationale was the more general option gives us a longer time without having to change the IPS policy.

Angela McDannel seconded the motion, which passed with eleven votes in favor.

Carroll South encourages EIAC/PERB to think globally about the issue of hiring/firing money managers of mutual funds. You must look at the style and where the style is relative to the market. It is critical to use the right selection process when hiring a money manger, because past performance is not ever indicative of future performance.

Carroll expressed concerns for the PERB's fiduciary responsibility when they fire a money manager because the net asset of investments is less than when our participants purchased those shares. These fired funds are replaced with well performing funds that have high net assets. Carroll feels we expect members to sell low and buy high; which is opposite good investment strategy.

Carroll would like to see the monies from closed funds mapped to the Stable Value to avoid the PERB investing our participant money at a high point and feels that it is our fiduciary responsibility to track closed funds.

Tom Schneider has expressed concerns similar to Carroll's and would also like to track the closed funds.

Carroll feels even though the DC Plans do not currently have day traders that our IPS should eliminate daily trading to prevent the drag on returns for the long-term investors created by the liquidity issue.

VANGUARD EXPENSE RATIOS

Tom Schneider moved to recommend to the PERB to move the 457 Plan's Vanguard 500 Index Fund to a "new" Vanguard 500 Index fund using the Institutional share class with an expense ratio of .05% and the 401(a) Plan's Vanguard Balanced Index Fund to the Institutional share class with an expense ratio of .10%.

This transfer will occur at the earliest possible date; the blackout will affect only the Vanguard Funds, and both sides will trade on the same day resulting in the same number of shares. The rationale is that both funds qualify for reduced expense ratios because their assets exceed \$10 million and this will provide an administrative savings to our participants.

The motion was seconded by Tom Bilodeau and passed with eleven votes in favor.

457 PLAN ASSET ALLOCATION FUND

Spring 2004 EAC recommended the PERB drop the GWFS Profile funds and negotiate with GW to lower their fees to build Asset Allocation Funds. The PERB accepted this recommendation. Negotiations revealed that the GW pricing was derived from the liability they incur when they strike a daily value.

GW may build a "front" that provides a standard risk tolerance test that determines whether the participant's investing style is conservative, aggressive, or moderate. The "front" will automatically allocate a member's assets by percentages into the funds that the PERB had determined met that particular style. The statement will split each fund's return.

GW provided information on how they analyze and change their underlying funds in their Profile funds. GW is not able to ensure that every fund they use in their Profile funds would meet our IPS criteria. Within the next months Perry Christie from GW will advise if they can do the required programming change in their system and what the time frame and cost will be.

457 PLAN SURVEY

The U of M began conducting the survey with a field test the week before Christmas. The field test showed an 87% satisfaction rate with the 457 Plan. Terry Teichrow felt the gentleman who surveyed him did an awesome job. A member of MPERA staff who was surveyed felt the presentation of the survey questions was excellent.

The U of M Business Bureau will contact 400 random participants; the results should be finalized by the end of February. The results will be tabulated, compiled, and reported to PERB.

457 PLAN STABLE VALUE FUND

A portion of the Stable Value fund was previously with the BOI; a portion was with an outside manager: State Street Research. This worked well because it captured the best of both the worlds; a long duration and a short duration. Restructure has occurred since that point in time.

The PERB contracted with Arnerich Massena and Associates, Inc who worked with BOI & Pimco to examine if there is an ability to restructure the stable value fund either using another investment manager or using PIMCO and lengthening the duration to garner additional returns.

The Arnerich Massena analysis concluded that at this time there would be insufficient returns garnered by lengthening the duration to justify the risk assumed. Because Aegon expressed concern with underwriting a portfolio that had a longer duration; it may have been necessary to go outside for a new wrap provider. In addition: that may not have been an opportune time for the BOI due to staff changes and internal restructure.

It was determined the best action would be to bid the stable value fund in a more specific manner when the contract expires. Desired structure and expectations as well as appropriate wrap providers (who is paid

separately) services should be decided upon and defined. At that time, multiple managers, as previously done one with short-term strength and one with long-term strength can be reviewed.

Individual Comments:

Last time the Stable Value bid was awarded, the Board of Investments did not submit sufficient required materials, which decreased the score that the consultant who analyzed the bids was able to give them.

Tom Schneider feels we were hurt at that time. Tom asked if we can take the position that we will always have the Montana Board of Investments as an option without a bid and use the bid process to fill in with a private sector that meets the short term or long term duration. Tom feels that we can't get hurt because if the BOI is out of line folks will go with the private sector. Tom would like the PERB to consider that they do not have to include the BOI in the bid process.

Kathy confirmed that in statute the investment options do not need to go through the competitive bidding process. The question is if we bid it; can we exclude the BOI from the bid without claims from outside sources.

PENDING WORK

If the PERB accepts EIAC's IPS recommendation at their January 26, 2005 meeting Kathy will forward the IPS to Arnerich & Massena so they can begin the annual review based on the current IPS.

CLOSING BUSINESS

The next meeting will be the beginning of March. Tom Schneider moved to adjourn the meeting; Glen Leavitt made the second. Kathy Samson adjourned the meeting.